The Global LEI Initiative

Accelerating LEI Registrations as EMIR and MiFID Deadlines Approach

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The Global Legal Entity Identification Foundation (GLEIF) has been reporting statistics on Legal Entity Identifier (LEI) data since January, 2016. We are pleased to bring you this Research Note on the GLEIF's September 2017 reporting of LEI issuance.[1]

This month marked the fourth successive month of a new high in net increases in newly issued LEIs vs. lapsed LEIs, a net increase of 23,901 LEIs. This is over two (2) times the earlier months all-time high of 11,329. This milestone is occurring at the same time as a nearly 30% ratio (29.9%) of issued vs. lapsed LEIs persists, although the ratio has declined to nearly match the 29.7% figure at start of the year 2017. (Lapsed LEIs are those LEIs that have not been renewed by their legal entity registrants as of their annual renewal dates).

September, 2017 was the fifth month for GLEIF's collection of relationship data (Level 2 data) or what is referred to as 'who owns whom' data – the immediate parent and ultimate parent of each LEI renewed. Five (5) month's results so far have seen the registration of 19,383 relationship records vs. 19,356 relationship records the prior month vs. June's month-end 14,478 and May's 7,393, the first full month of gathering relationship data. This month only 4 LOUs vs. last month's 9 LOUs of a total of 30 LOUs are still not reporting relationship data down from 12 in May when relationship data was first reported.

The chart below follows newly issued LEIs vs. lapsed LEIs for each month in 2017 and compares it to last year's monthly average. As can be seen, while monthly lapsed LEIs had consistently exceeded the new issued rate in the past, this has now turned around in the last four months.

	2016	2017								
	Monthly Average	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Total LEIs Issued	481,522 (Year-end Total)	486,989	492,801	500,235	506,456	513,177	522,241	534,376	551,752	586,878
Newly Issued	5,334	5,390	5,580	7,123	5,820	6,614	8,655	11,669	16,430	33,720
Lapsed	6,300	7,511	8,680	7,278	6,666	7,719	6,436	6,450	5,101	9.819
Net Increase/decrease	-996	-2,121	-3,100	-145	-846	-1,105	2,219	5,219	11,329	23,901
Lapsed rate	29.0% (Year-end %)	29.7%	30.4%	30.5%	31.0%	31.2%	31.3%	31.2%	30.5%	29.9%

This turnaround was expected as LEI registrants are being prodded by the EU's EMIR and MiFID II directives to obtain a LEI in order to transact and report on financial business with investment companies and swaps counterparties with clients or financial institutions in the Eurozone. EMIR's updated rules for reporting derivatives trades becomes effective November 1, 2017 and MiFID's 'No LEI No Trade Rule' for counterparties and trading partners and 'No LEI No Issuance Rule' for contract and securities issuing entities which becomes effective on January 3, 2018 are seen as the motivating factors for accelerated LEI issuance.

[1] GLEIF Data Quality Report – September 2017, https://www.gleif.org/en/lei-data/gleif-data-quality-management/about-the-data-quality-reports/download-data-quality-reports/download-global-lei-data-quality-report-september-2017#, Oct. 5, 2017

At the technical level and because the LEI is to be combined with the UTI (Unique Transaction Identifier) to uniquely identify trades, the quality of the LEI as a unique, unambiguous and universal identifier of financial market supply chain participants is especially important. Maintenance of the LEI as performed through updating LOU registries when corporate reorganizations take place is equally important, least the GLEIS database fall behind the more timely updated internal systems of financial market participants. Finally, with lapsed LEIs permitted to be used to satisfy EU rules (for the ID of the other counterparty, for the Broker ID, for the clearing member ID, and for the beneficiary ID)[2] lapsed LEIs open up the possibility of untimely and incomplete maintenance of data in trade repositories and in the GLEIS database.

Also importantly, the ROC is tackling the fund management issue with a recent consultation asking for clarification by industry members as to how to report hierarchies of associated collective investment vehicles.[3] The ROC wants to know how to define the hierarchies of LEIs to allow their associated portfolios to be aggregated for risk analysis using their organizational ownership and control structure. This consultation comes at the same time as the ROC's corporate action consultation, whose comment period ended Sept. 29, 2017.[4]

A most critical next step after registration of LEIs and cleaning up of lapsed LEIs is proving the LEI's corporate reorganization maintenance functions and hierarchical aggregation capabilities work and do so in time frames acceptable to industry and regulators. Thereafter, along with the LEI, codes for product identity needs to be accommodated in financial transaction reporting. In the EU there are three choices, the UPI (Unique Product Identifier) or the AII (Alternative Investment Instrument) or the ISIN (International Securities Identification Number). These are essential so that transactions can be aggregated by participant and position for valuation purposes. The UPI and the ISIN are in various stages of completeness and their use is still uncertain as both identifiers seem to address the same concept of unique identification of derivative products. [5]

The aggregation capability using unique identifiers and common data elements is critical to observing systemic risk, the main objective regulators have championed for pursuing this global data standards regime. However, the EU is content to allow unreconciled data to be aggregated owing to the incomplete and still evolving data harmonization efforts and the recognized poor quality of data reported to trade repositories. [6]

With so much uncertainty in such fundamental components of data reporting as described in this Research Note it seems both the industry and regulators need to reflect on potentially precipitating another data deluge with an uncertain outcome. The last time this was tried it

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[2] ESMA, Trade Reporting, Validation rules under revised EMIR standards (updated 3 October 2017. Applicable from 1 November 2017)
https://www.esma.europa.eu/sites/default/files/library/esma70-145-63_emir_validation_rules_for_revised_rts_its.xlsx

[3] LEI ROC, Consultation Document on Funds Relationships in the Global LEI System ,
https://www.leiroc.org/publications/gls/roc_20170926-1.copy-1.pdf, Sept. 26, 2017

[4] LEI ROC, Consultation Document on Corporate Actions and Data History in the Global LEI System,
http://www.leiroc.org/publications/gls/roc_20170726-1.pdf, July 26, 2017

[5] ESMA, Final Report Draft technical standards on data to be made publicly available by TRs under Article 81 of EMIR,
https://www.esma.europa.eu/sites/default/files/library/esma70-151-370_final_report_tr_public_data_under_emir.pdf, footnote 6 at page 11, July 2017

[6] *Ibid*, at page 24

produced billions of inaccessible and unreconciled data points. Is the industry and regulators up for the second bite of the apple knowing the limitations that already exist, or as risk managers would say 'the known risks" when there is so much "unknown risks" (many times restated as 'unintended consequences')?

It also seems obvious to this observer that if all is concluded successfully then we have only achieved implementing our past best practices, practices that served us well in the past but that may not do as well in our digital future. The past was about interoperability achieved through a myriad of financial market utilities and infrastructure entities, and by data vendors and proprietary codes that needed to be mapped to pass financial transactions from origin to payment and settlement end points. We seem to be duplicating this in the 'new' infrastructure we are building.

The digital future has been with us for over two decades, already transforming the front-end of our business. But technology transformation has been resisted, whether by underfunding or legacy mindsets, or both, in the back and middle office and in the interconnected infrastructure that comprises our global financial system.

The expectation to enter the digital age completely, to realize regulators' vision for transparency and the industry's vision of Straight-through-Processing, is to assign global data standards a first priority where collective action and regulatory compulsion is to be its driver. However, arriving at dysfunctional data reporting a second time may quash enthusiasm generated following the financial crisis when the G20 gave the mandate to stabilize the global economy to the Financial Stability Board. They rightly took up data standards as their first initiative. We cannot afford to lose the momentum with another dysfunctional implementation.

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